

MPSERS Testimony – HB 4190 – April 18, 2013

Three thoughts as you consider the allocation of school retirement costs:

1) Foundation Allowance

- Prior to Proposal A taking effect in July 2004, schools were capped at 5% of the Michigan Public School Employee Retirement System (MPSERS) rate and the State paid the rest.
- When Proposal A took effect, the Foundation Allowance included the state portion of the MPSERS rate and schools paid the full cost, including Current Service Costs, the Health Insurance Portion and the Unfunded Accrued Liability.
- It is important to acknowledge that the current Foundation Allowance includes funding to be used for the MPSERS retirement system.
- All local schools, ISDs, and Charters/Public School Academies/Cybers receive a Foundation Allowance for children they educate. That funding includes a portion intended to pay the MPSERS responsibility.
- All of these education providers should either 1) help fund the liability or 2) have their foundation allowance allocation reduced by the unfunded accrued liability per pupil average. Recently estimated by ORS to be \$1,350 per pupil.

2) Current Operating Expenses – method to charge the costs of the unfunded accrued liability

- Challenges
 - Should be a correlation between the cause of the Unfunded Accrued Liability and how that cost is charged to education providers receiving public funds
 - Look back a number of years (pre-charters)
 - All education providers receiving public dollars were mandated to be included in MPSERS system, including teaching, administrative and support positions.
 - Some education providers of those positions are now no longer mandated to employ positions to provide these services, such as Charters and Public School Academies
 - Some of the Unfunded Accrued Liability should be allocated to those groups
 - The calculation as proposed is based on prior year data.
 - Federal grants would need to be charged, but there will be issues with costs not being matched to current activity or grant costs that have nothing to do with salaries being charged retirement
 - Charging grants that are pass through grants where revenue equal expenses for another entity would cause issues, including potentially charging the same costs twice, once at the local district level and then again as it passes through the ISDs.
 - Which funds would this be charged to? The bill does not exclude any funds.
 - General Fund?
 - Special Revenue Fund? Food Service, Childcare
 - Capital Projects Fund? Construction, furnishings, buses and equipment
 - Debt Service Fund?
 - Trust Fund?
 - All these funds have Current Operating Expenses or COE

3) Current Operating Cost increase assumption

- Proposal mandates a 3.5% increase be used each year
- Looking back over the past five year-to-year changes in COE, actually generates a negative number
- The 2010-11 COE for the General Fund is actually lower than it was in 2005-06
- Looking at the last 5 year-to-year changes, there was actually a drop in COE in 3 of the last 5 years

Current Operating Expenditures

MDE Bulletin 1011 Reports

	<u>General Fund</u> <u>COE</u>	<u>Dollar Increase</u> <u>(Decrease)</u> <u>From Prior Year</u>	<u>Percent Increase</u> <u>From Prior Year</u>
5 - Year Average		\$ (9,402,825)	-0.06%
2010-11	\$ 14,605,981,816	\$ (234,457,476)	-1.58%
2009-10	14,840,439,292	(42,447,749)	-0.29%
2008-09	14,882,887,041	59,100,460	0.40%
2007-08	14,823,786,581	(3,328,667)	-0.02%
2006-07	14,827,115,248	174,119,308	1.19%
2005-06	14,652,995,940		